

**SAULT STE. MARIE AREA PUBLIC  
SCHOOLS**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2008**

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

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## **INDEPENDENT AUDITORS' REPORT**

October 7, 2008

Board of Education  
Sault Ste. Marie Area Public Schools  
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of ***Sault Ste. Marie Area Public Schools*** (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

Sault Ste. Marie Area Public Schools is a pre-K through grade 12 school district located in Chippewa County, Michigan. The Management's Discussion and Analysis, a requirement of the Governmental Accounting Standards Board, is intended to be management's discussion and analysis of the financial results for the fiscal year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### Overview of the Financial Statements

The District's financial statements consist of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and other supplementary information.

The basic financial statements include two types of statements that present different views of the District:

- The first two statements are the *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status. These statements present an aggregate view of the District's finances and a longer-term view of those finances.
- The next statements are *fund financial statements* that focus on individual funds of the District. These statements look at the District's operations in more detail than the District-wide financial statements by providing information about the District's most significant fund – the General Fund, with all other funds presented in one column as Nonmajor Funds.

The statement of fiduciary assets and liabilities presents financial information about activities which the District acts solely as an agent for the benefit of students and others.

**District-wide financial statements.** The *District-wide financial statements* report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets and the statement of activities, which appear first in the District's financial statements, include all assets and liabilities and use the accrual basis of accounting. This means that all of the current year's revenues and expenses are taken into account regardless of when cash is received.

The two District-wide financial statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.

The relationship between revenues and expenses is the District's operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District's goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many non-financial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, State grants, and Federal grants finance most of these activities.

**Fund financial statements.** The District's *fund financial statements* provide detailed information about the most significant fund – not the District as a whole. Some funds are required to be established by State law and by bond covenants, though the District may establish other funds to help control and manage money for particular purposes. It may also establish other funds to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The fund level financial statements are reported on a modified accrual basis, which measures only those revenues that are “measurable” and “currently available”. Expenses are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- Debt Service Funds – consisting of the 1999 school building and site bonds, 2001 QZAB bonds, 2002 QZAB bonds, 2005 refunding bonds and Durant bonds.
- Special Revenue Funds – consisting of the Food Service Fund and the Athletics Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. Assets are not capitalized at the fund level. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future debt obligations are not recorded at the fund level.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.



## Summary of Net Assets

The following summarizes the net assets at fiscal years ended June 30, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Assets</b>			
Current assets	\$ 8,264,157	\$ 8,025,917	\$ 6,360,429
Capital assets not depreciated	70,722	70,722	70,722
Capital assets depreciated	<u>14,580,581</u>	<u>14,953,615</u>	<u>15,488,413</u>
<b>Total assets</b>	<b><u>\$22,915,460</u></b>	<b><u>\$ 23,050,254</u></b>	<b><u>\$ 21,919,564</u></b>
<b>Liabilities</b>			
Current liabilities	\$ 5,900,604	\$ 5,635,960	\$4,093,635
Long-term liabilities	<u>9,731,929</u>	<u>10,544,868</u>	<u>10,988,105</u>
<b>Total liabilities</b>	<b><u>\$15,632,533</u></b>	<b><u>\$ 16,180,828</u></b>	<b><u>\$15,081,740</u></b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 4,285,288	\$ 4,108,322	\$ 3,947,195
Restricted for			
Debt service	1,077,959	955,614	853,156
Unrestricted	<u>1,919,680</u>	<u>1,805,490</u>	<u>2,037,473</u>
<b>Total net assets</b>	<b><u>\$ 7,282,927</u></b>	<b><u>\$ 6,869,426</u></b>	<b><u>\$ 6,837,824</u></b>

## Analysis of Financial Position

During the fiscal year ended June 30, 2008, the District's net assets increased by \$374,967. A few of the significant factors affecting net assets during the year are discussed below:

**General Fund Operations.** The district's expenditures from General Fund operations were exceeded by revenues in the amount of \$234,837 for the fiscal year ended June 30, 2008. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

**Principal Payments.** The District made principal payments on bonded debt obligations that reduced the amount of the district's long-term liabilities as follows.

	<u>Balance</u> <u>06/30/07</u>	<u>Adjustments</u>	<u>Payments</u>	<u>Balance</u> <u>06/30/08</u>
Bonds payable	\$10,916,015	\$ -	\$ (550,000)	\$ 10,366,015
Compensated absences	<u>178,853</u>	<u>5,788</u>	<u>(4,855)</u>	<u>179,786</u>
<b>Total long-term obligations</b>	<b><u>\$ 11,094,868</u></b>	<b><u>\$ 5,788</u></b>	<b><u>\$ (554,855)</u></b>	<b><u>\$ 10,545,801</u></b>

For fiscal year 2008, 1.90 mills were levied on local taxpayers to pay the current principal and interest of \$961,362. The millage rate for fiscal year 2009 will be 1.90 mills to pay principal and interest of \$963,176.

## Capital Assets

The District's investment in capital assets was decreased by \$409,955 during the fiscal year. This can be summarized as follows:

	<b>Restated Balance 06/30/07</b>	<b>Additions</b>	<b>Adjustments/ Deletions</b>	<b>Balance 06/30/08</b>
Capital assets	\$ 25,431,230	\$ 236,976	\$ (301,819)	\$ 25,366,387
Less: accumulated depreciation	<u>(10,369,972)</u>	<u>(646,931)</u>	<u>301,819</u>	<u>(10,715,084)</u>
<b>Capital assets, net</b>	<b><u>\$ 15,061,258</u></b>	<b><u>\$ (409,955)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 14,651,303</u></b>

Additions to capital assets for fiscal 2008 include the Special Education bus, door replacements in the High School Gymnasium, Washington Elementary, and Soo Township Elementary, the Soo Township paving project, a dimmer panel installed in the Strahl Theater, software and network hardware, an air conditioning unit, athletic field fencing, a generator, and a lawn mower.

For fiscal year 2008, depreciation expense was \$646,931. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with accounting principles generally accepted in the United States of America, depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value. The adjustment of \$38,534 to decrease the beginning balance of accumulated depreciation and increase the District's net assets reflects the correction of an error in the calculation of accumulated depreciation on certain assets in prior years.

See Note IIIC – Capital Assets on page 32 for more detail.

## Results of Operations

The District-wide results of operations for the fiscal years ended June 30, 2008, 2007 and 2006, were (in thousands):

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>General revenue</b>			
Property taxes collected for general operations	\$ 4,016	\$ 3,703	\$ 3,443
Property taxes levied for debt service	911	942	1,046
State of Michigan aid – all sources	13,999	14,288	16,302
Federal impact aid	358	246	430
Other – investment earnings, fees	<u>168</u>	<u>154</u>	<u>257</u>
<b>Total general revenue</b>	<b><u>19,452</u></b>	<b><u>19,333</u></b>	<b><u>21,478</u></b>
<b>Program revenue</b>			
Charges for services – local	691	760	1,020
Operating grants – federal and state	<u>4,596</u>	<u>4,611</u>	<u>2,659</u>
<b>Total program revenue</b>	<b><u>5,287</u></b>	<b><u>5,371</u></b>	<b><u>3,679</u></b>
<b>Total revenues</b>	<b><u>24,739</u></b>	<b><u>24,704</u></b>	<b><u>25,157</u></b>

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Expenses</b>			
Instruction and instructional services	\$ 13,494	\$ 13,868	\$ 16,931
Support services	8,137	8,207	7,473
Community services	173	163	31
Interest on long-term debt	416	477	524
Depreciation (unallocated)	647	654	703
Other	<u>1,497</u>	<u>1,304</u>	<u>533</u>
<b>Total expenses</b>	<b><u>24,364</u></b>	<b><u>24,673</u></b>	<b><u>26,195</u></b>
Changes in net assets	375	31	(1,038)
Net assets, beginning of year	6,869	6,838	7,834
Prior period adjustment	<u>39</u>	<u>-</u>	<u>42</u>
<b>Net assets, end of year</b>	<b><u>\$ 7,283</u></b>	<b><u>\$ 6,869</u></b>	<b><u>\$ 6,838</u></b>

#### **Property Taxes Levied for General Operations (General Fund Property Taxes)**

The District levies 17.9604 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually the taxable valuation increase in property values is capped at the rate of the prior year's Consumers Price Index or 5%, whichever is less. At the time of sale, a property's taxable valuation is re-adjusted to the state equalized value, which is, theoretically, 50% of the market value.

The District's non-homestead property tax levy for fiscal 2008 was \$3,999,990; the non-homestead property tax levy increased by 3.73% over fiscal 2007.

The following summarizes the District's non-homestead tax levy over the past five years\*:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2007 – 2008	\$ 3,999,990	3.73%
2006 – 2007	3,856,022	6.97%
2005 – 2006	3,604,888	5.18%
2004 – 2005	3,475,286	10.50%
2003 – 2004	3,144,000	1.70%

The average increase over the past five years was 5.62%.

\*Source – L-4029 Tax Rate Request filed with Chippewa County.

## State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined based on the following variables:

- State of Michigan Aid Act student foundation allowance.
- Student Enrollment – Blended at 75% of current year fall count and 25% of prior year winter count.
- The District's non-homestead levy.

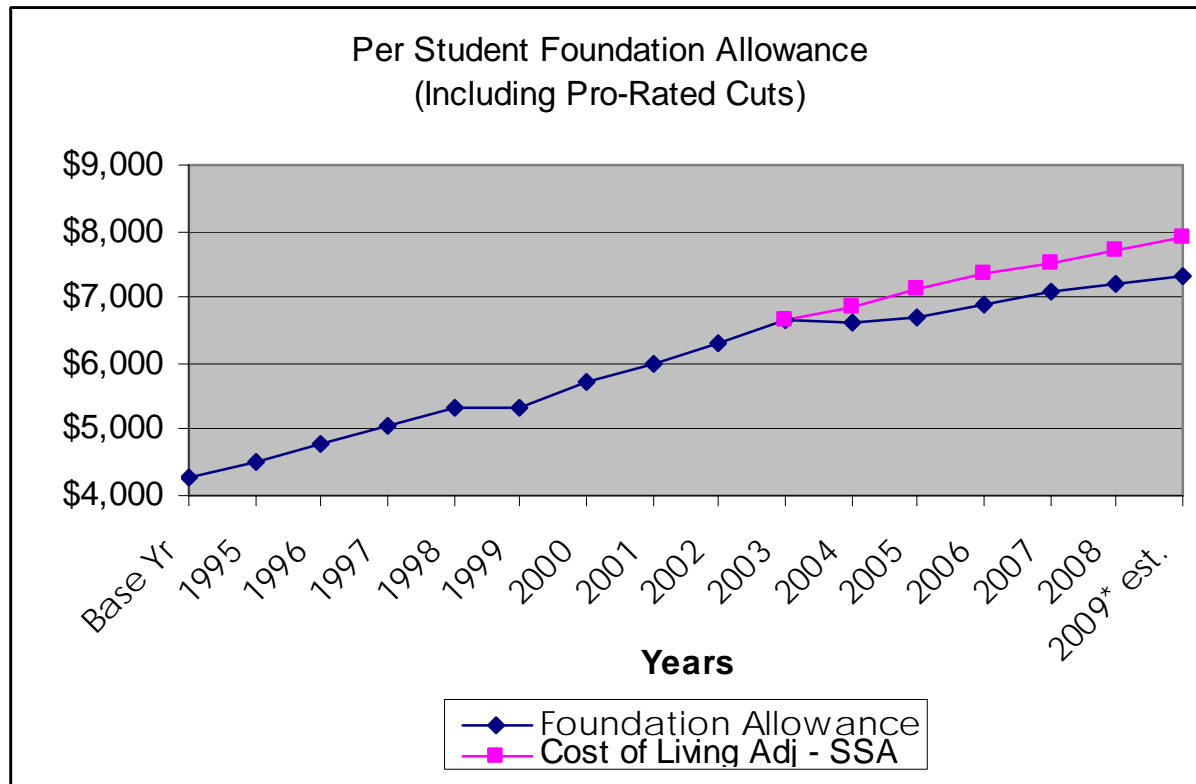
To calculate the amount of total state aid to be received, the District multiplies the per student foundation allowance by the blended student count and subtracts the total amount of non-homestead tax collected. The result is the amount of state aid to be received by the District. The more local non-homestead property taxes collected, the less state aid received.

It should also be noted that the State of Michigan often makes adjustments to prior years' payments based on changes in tax levies resulting in changes to the current period state aid received.

### Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The Sault Ste. Marie Area Public Schools foundation allowance was \$7,204 per student for the 2007–2008 school year. This is an increase of \$119 or 1.7% over the District's 2006–2007 foundation allowance per student of \$7,085.

The projected foundation allowance for 2008-2009 is \$7,316.



## Student Enrollment

The District's student enrollment for the fall count of fiscal 2008 was 2,548 students. The District's enrollment has gradually declined over the past five years. The following summarizes the fall 2007 student enrollment and the actual foundation allowance for the past five years:

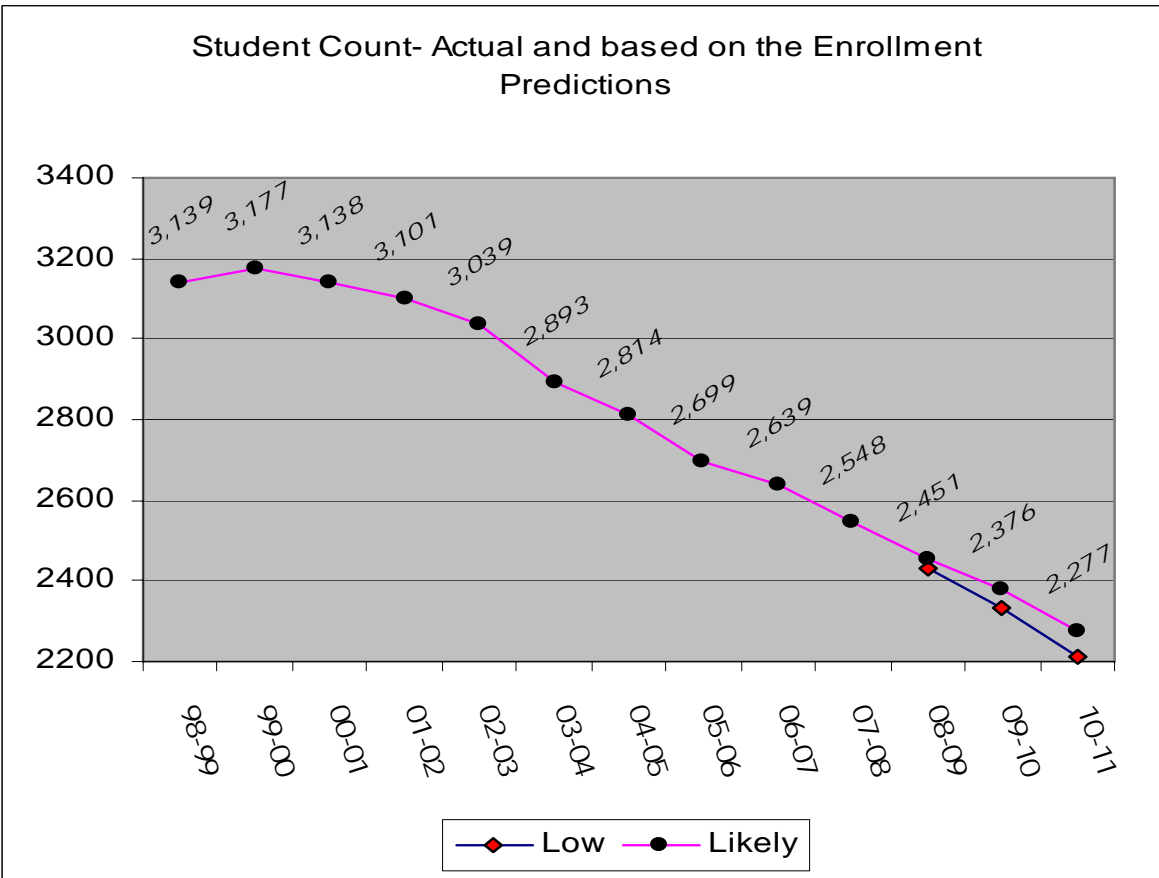
	<u>Enrollment</u>	<u>Change from Prior Year</u>	<u>Actual Foundation</u>	<u>Change from Prior Year</u>
2007 – 2008	2,548	(3.4)%	\$ 7,204	1.7%
2006 – 2007	2,639	(2.2)%	7,085	3.1%
2005 – 2006	2,699	(4.1)%	6,875	2.6%
2004 – 2005	2,814	(2.7)%	6,700	1.1%
2003 – 2004	2,893	(4.8)%	6,626	(0.4)%

Subsequent to June 30, 2008, preliminary student enrollment for 2008-2009 is anticipated to decrease by 97 students.

### Sault Schools Fall Enrollment Predictions\*

<u>Year</u>	<u>Most Likely</u>	<u>Low Prediction</u>	<u>Actual</u>	<u>Fall Count Likely</u>	<u>Fall Count Low</u>
98-99	(33)	(92)	(14)	3,139	
99-00	7	(74)	38	3,177	
00-01	(50)	(120)	(39)	3,138	
01-02	(19)	(85)	(37)	3,101	
02-03	(58)	(112)	(62)	3,039	
03-04	(108)	(167)	(146)	2,893	
04-05	(58)	(114)	(79)	2,814	
05-06	(55)	(123)	(116)	2,699	
06-07	(87)	(114)	(60)	2,639	
07-08	(115)	(162)	(91)	2,548	
08-09*	(97)	(115)		2,451	2,433
09-10*	(75)	(101)		2,376	2,350
10-11*	(99)	(122)		2,277	2,228

\*Source – Education Services, Inc - Birmingham, MI (2/8/2008)  
and Information Management Systems – Rockford, MI (February 2008)



### Property Taxes levied for debt service

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all homestead and non-homestead properties. In addition, the District collects IFT (Industrial Facilities Taxes) in lieu of taxes that are essentially taxed at 50% of the regular tax rate.

For 2007-2008, the District's debt millage levy was 1.9 mills and generated revenue of \$902,224. As of June 30, 2008, the District had received \$8,649 more than anticipated and expects tax tribunal and board of review refunds to claim these in the next fiscal year as property values are updated by the County Treasurer.

### Original vs. Final Budget

The Uniform Budget Act (PA 621) of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1 of each fiscal year.

As a matter of practice, Sault Ste. Marie Area Public Schools amends its budget periodically during the school year. For the fiscal year 2007-2008, the budget was amended in December 2007 and June 2008. The June 2008 budget amendment was the final budget amendment for the fiscal year.

## **Change from Original to Final Budget (in thousands)**

### **General Fund Revenues - Original vs. Final Budget**

Total revenues and transfers original budget	\$ 21,244
Total revenues and transfers final budget	<u>22,332</u>

**Increase in budgeted revenues** **\$ 1,088**

Some of the significant budget adjustments for the year include:

#### **Revenues**

Increase property/other taxes	\$ 251
Decrease indirect costs/rental and tuition	(98)
Increase state aid for increased foundation grant	555
Increase impact aid	85
Increase federal grants – including carryover	129
Increase special education mill distribution	146
Increase prior year state aid/LEA transfers	20

### **General Fund Expenditures - Original vs. Final Budget**

Total expenditures original budget	\$ 21,932
Total expenditures final budget	<u>22,673</u>

**Increase in budgeted expenditures** **\$ 741**

Some significant budget adjustments for the year include:

#### **Expenditures**

Transportation costs	
Increase for fuel prices	\$ 60
Bus purchases (used)	9
Elementary	
Increase salaries/benefits (reclass for grants)	212
Operations/maintenance	
Increase W/C premium	34
Increase in fuel costs	29
Increase for capital outlay	19
Special education	
Increase contracted services (speech)	46
Administration	
Increase for contracted services	15
Increase for state aid note issuance/interest	67

**Expenditures (concluded)**

## Special programs expenses

Increase grants to Malcolm-School improvement	\$	30
Increase 31A and Title I carryover for summer programming		57
Increase MiBLSi supplies and training for elementary buildings		22

**General Fund Budget & Actual Revenues & Expenditures****General Fund Revenue Budget vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Revenues Final Difference Favorable (Unfavorable)</u>	<u>Revenues Final Variance Favorable (Unfavorable)</u>
2003 – 2004	\$ 24,331,230	\$ 24,234,263	\$ (96,967)	(0.40)%
2004 – 2005	23,859,813	23,581,804	(278,009)	(1.18)%
2005 – 2006	22,765,978	22,892,670	126,692	0.56%
2006 – 2007	22,564,461	22,577,252	12,791	0.06%
2007 – 2008	22,332,334	22,643,126	310,792	1.38%

Some of the significant budget variances for the year include:

<u>Revenue Source</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Revenues Final Difference Favorable (Unfavorable)</u>	<u>Revenues Final Variance Favorable (Unfavorable)</u>
State Aid - Unrestricted	\$ 13,847,149	\$ 13,998,559	\$ 151,410	1.08%
State Aid – Categorical	1,643,426	1,654,460	11,034	0.67%
Tuition/Transfers	526,233	583,913	57,680	9.88%
Insurance Refunds	61,286	92,232	30,946	33.55%
Rent – School Facilities	52,312	74,300	21,988	29.59%

**General Fund Expenditures Budget vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Revenues Final Difference Favorable (Unfavorable)</u>	<u>Revenues Final Variance Favorable (Unfavorable)</u>
2003 – 2004	\$ 24,978,894	\$ 24,459,195	\$ 519,699	2.13%
2004 – 2005	24,598,267	24,464,249	134,018	0.55%
2005 – 2006	24,026,875	23,657,167	369,708	1.56%
2006 – 2007	22,812,400	22,471,900	340,500	1.52%
2007 – 2008	22,673,065	22,039,065	634,000	2.88%



Some of the significant budget variances for the year include:

<u>Expenditures</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Expenditures Final Difference Favorable (Unfavorable)</u>	<u>Expenditures Final Variance Favorable (Unfavorable)</u>
Salaries	\$ 12,164,972	\$ 12,020,399	\$ 144,573	1.20%
Benefits	6,548,508	6,398,940	149,568	2.34%
Purchased Services	1,426,069	1,267,091	158,978	12.55%
Equipment Maintenance	250,561	245,672	4,889	1.99%
Supplies	1,745,603	1,710,524	35,079	2.05%
Capital outlay	250,928	233,398	17,530	7.51%
Fund Transfers/Misc	554,935	532,263	22,672	4.26%

### **2008 – 2009 Budget**

The preliminary general fund budget for the 2008-09 fiscal year was adopted by the Board of Education on June 9, 2008. Several important factors were known as the budget was being drafted, others were projected with best estimates.

#### **Impact on Revenues**

- Use of \$677,735 of fund equity to compensate for lost state aid revenue.
- State aid foundation estimated at \$7,200 per pupil.
- Decrease in enrollment projected at 95 students.
- Decrease in federal grant revenues.
- Decrease in contributions and insurance refunds.
- Change in taxable value calculations for millage revenue.

#### **Impact on Expenditures**

- Increase in state aid note borrowing.
- Decrease in retirement rate from 16.72% to 16.54%.
- Reduce staffing due to declining enrollment: 5 teachers and 2 paraprofessionals.
- Increased federal and state grant expenditures from Concentration Grant.

#### **Estimated 2008-2009 Budget**

2008-2009 revenues	\$ 21,761,623
2008-2009 expenditures	<u>22,439,358</u>
Excess expenses over revenues	\$ (677,735)
July 1, 2008 fund balance	<u>1,981,175</u>
<b>Estimated June 30, 2009 budgeted fund balance</b>	<b><u><u>\$ 1,303,440</u></u></b>

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office of the Sault Ste. Marie Area Public Schools at (906) 635-6609.

## **BASIC FINANCIAL STATEMENTS**

## **DISTRICT-WIDE FINANCIAL STATEMENTS**

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## STATEMENT OF NET ASSETS

JUNE 30, 2008

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 737,984
Investments	4,252,468
Receivables	3,621,153
Prepaid items and other assets	58,617
Capital assets not being depreciated	70,722
Capital assets being depreciated, net	14,580,581
<b>Total assets</b>	<b>23,321,525</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	3,221,270
Unearned revenue	466,071
State aid note	1,805,456
Noncurrent liabilities	
Due within one year	821,978
Due in more than one year	9,723,823
<b>Total liabilities</b>	<b>16,038,598</b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	4,285,288
Restricted for	
Debt service	1,077,959
Unrestricted	1,919,680
<b>Total net assets</b>	<b>\$ 7,282,927</b>

The accompanying notes are an integral part of these basic financial statements.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental activities</b>				
Instruction	\$ 13,493,533	\$ 80,406	\$ 4,080,233	\$ (9,332,894)
Supporting services	8,136,963	-	-	(8,136,963)
Community service	172,526	-	-	(172,526)
Food service	1,048,862	476,471	515,517	(56,874)
Athletics	449,206	134,062	-	(315,144)
Interest on long-term debt	415,929	-	-	(415,929)
Unallocated depreciation	646,931	-	-	(646,931)
<b>Total governmental activities</b>	<b><u>\$ 24,363,950</u></b>	<b><u>\$ 690,939</u></b>	<b><u>\$ 4,595,750</u></b>	<b><u>(19,077,261)</u></b>
<b>General revenues</b>				
Property taxes				4,927,397
Unrestricted state aid				13,998,559
Grants and contributions not restricted to specific programs				358,502
Unrestricted investment earnings				<u>167,770</u>
<b>Total general revenues</b>				<b><u>19,452,228</u></b>
<b>Change in net assets</b>				<b>374,967</b>
Net assets, beginning of year				6,869,426
Prior period adjustment				<u>38,534</u>
<b>Net assets, end of year</b>				<b><u>\$ 7,282,927</u></b>

The accompanying notes are an integral part of these basic financial statements.

## **FUND FINANCIAL STATEMENTS**

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

	General	Other Governmental Funds	Totals
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 58,969	\$ 679,015	\$ 737,984
Investments	3,535,494	716,974	4,252,468
Accounts receivable	21,867	406,065	427,932
Due from other funds	40,607	8,969	49,576
Due from other governments	3,193,221	-	3,193,221
Inventory	21,010	17,335	38,345
Prepaid expenses	20,272	-	20,272
<b>Total assets</b>	<b>\$ 6,891,440</b>	<b>\$ 1,828,358</b>	<b>\$ 8,719,798</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 304,295	\$ 18,758	\$ 323,053
Salaries and benefits payable	2,707,272	-	2,707,272
Due to other funds	8,969	40,607	49,576
Due to other governments	45,251	-	45,251
Unearned revenue	39,022	427,049	466,071
State aid note	1,805,456	-	1,805,456
<b>Total liabilities</b>	<b>4,910,265</b>	<b>486,414</b>	<b>5,396,679</b>
<b>Fund balances</b>			
Reserved			
Inventory	21,010	17,335	38,345
Prepaid expenses	20,272	-	20,272
Debt service	-	1,077,959	1,077,959
Designated			
General fund - for subsequent year's expenditures	677,735	-	677,735
Varsity Blues	11,889	-	11,889
Unreserved			
Undesignated	1,250,269	-	1,250,269
Undesignated, reported in nonmajor			
Special revenue funds	-	246,650	246,650
<b>Total fund balances</b>	<b>1,981,175</b>	<b>1,341,944</b>	<b>3,323,119</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,891,440</b>	<b>\$ 1,828,358</b>	<b>\$ 8,719,798</b>

Continued...



# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

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**Reconciliation of fund balances on the balance sheet for governmental funds to net  
assets of governmental activities on the statement of net assets**

**Fund balances - total governmental funds** **\$ 3,323,119**

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	25,366,387
Deduct - accumulated depreciation	(10,715,084)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and loans payable	(10,366,015)
Deduct - accrued interest on bonds payable	(145,694)
Deduct - compensated absences	(179,786)

**Net assets of governmental activities** **\$ 7,282,927**

Concluded

The accompanying notes are an integral part of these financial statements.

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
<b>Revenues</b>			
Local sources	\$ 4,535,580	\$ 1,580,274	\$ 6,115,854
State sources	15,653,019	51,312	15,704,331
Federal sources	1,841,860	464,205	2,306,065
Transfers from other districts	612,667	-	612,667
<b>Total revenues</b>	<b>22,643,126</b>	<b>2,095,791</b>	<b>24,738,917</b>
<b>Expenditures</b>			
Instruction	13,560,990	-	13,560,990
Support services	8,478,075	-	8,478,075
Food service activities	-	1,048,862	1,048,862
Athletic programs	-	449,206	449,206
Debt service			
Principal	-	550,000	550,000
Interest	-	409,085	409,085
<b>Total expenditures</b>	<b>22,039,065</b>	<b>2,457,153</b>	<b>24,496,218</b>
<b>Revenues over (under) expenditures</b>	<b>604,061</b>	<b>(361,362)</b>	<b>242,699</b>
<b>Other financing (uses) sources</b>			
Transfers out	(369,224)	-	(369,224)
Transfers in	-	369,224	369,224
<b>Total other financing (uses) sources</b>	<b>(369,224)</b>	<b>369,224</b>	<b>-</b>
Net change in fund balances	234,837	7,862	242,699
Fund balances, beginning of year	1,746,338	1,334,082	3,080,420
<b>Fund balances, end of year</b>	<b>\$ 1,981,175</b>	<b>\$ 1,341,944</b>	<b>\$ 3,323,119</b>

Continued...

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**Reconciliation of the statement of revenues, expenditures and changes in fund balances  
of governmental funds to the statement of activities**

**Net change in fund balances - total governmental funds** **\$ 242,699**

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add	- capital outlay	236,976
Deduct	- depreciation expense	(646,931)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add	- principal payments on long-term liabilities	550,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct	- increase in accrued interest payable on bonds and loans	(6,844)
Deduct	- increase in the accrual for compensated absences	(933)

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**Change in net assets of governmental activities** **\$ 374,967**

Concluded

The accompanying notes are an integral part of these financial statements.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Favorable/ Unfavorable Final Budget
<b>Revenues</b>				
Local sources	\$ 4,289,064	\$ 4,442,359	\$ 4,535,580	\$ 93,221
State sources	14,935,998	15,490,575	15,653,019	162,444
Federal sources	1,642,907	1,856,809	1,841,860	(14,949)
Transfers from other districts	376,000	542,591	612,667	70,076
<b>Total revenue</b>	<b>21,243,969</b>	<b>22,332,334</b>	<b>22,643,126</b>	<b>310,792</b>
<b>Expenditures</b>				
<b>Instruction</b>				
Basic programs	9,860,546	9,932,867	9,805,201	(127,666)
Added needs	4,072,218	3,825,838	3,732,751	(93,087)
Continuing education	39,965	18,203	23,038	4,835
Total instruction	13,972,729	13,776,908	13,560,990	(215,918)
<b>Supporting services</b>				
Pupil services	849,715	1,334,409	1,278,864	(55,545)
Instructional support	810,029	743,831	711,155	(32,676)
General administration	358,652	479,030	308,208	(170,822)
School administration	1,309,990	1,268,528	1,243,753	(24,775)
Business services	225,618	313,100	293,736	(19,364)
Operations and maintenance	2,452,387	2,630,895	2,554,210	(76,685)
Transportation	1,186,345	1,255,626	1,239,228	(16,398)
Central support services	766,601	795,317	777,483	(17,834)
Other support services	-	18,400	15,197	(3,203)
Community services	-	57,022	56,241	(781)
Total supporting services	7,959,337	8,896,158	8,478,075	(418,083)
<b>Total expenditures</b>	<b>21,932,066</b>	<b>22,673,066</b>	<b>22,039,065</b>	<b>(634,001)</b>
<b>Revenue (under) over expenditures</b>	<b>(688,097)</b>	<b>(340,732)</b>	<b>604,061</b>	<b>944,793</b>
<b>Other financing (uses) sources</b>				
Transfers out	(408,000)	(268,510)	(369,224)	(100,714)
<b>Net change in fund balance</b>	<b>(1,096,097)</b>	<b>(609,242)</b>	<b>234,837</b>	<b>844,079</b>
Fund balances, beginning of year	1,746,338	1,746,338	1,746,338	-
<b>Fund balances, end of year</b>	<b>\$ 650,241</b>	<b>\$ 1,137,096</b>	<b>\$ 1,981,175</b>	<b>\$ 844,079</b>

The accompanying notes are an integral part of these basic financial statements.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

JUNE 30, 2008

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	<b>Private- Purpose Trust Fund</b>	<b>Agency Fund</b>
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Cash and cash equivalents	\$      5,172	\$     327,941
Investments	<u>      15,000</u>	<u>                    -</u>
<b>Total assets</b>	<b>20,172</b>	<b><u>327,941</u></b>
<b>Liabilities</b>		
Due to student groups	<u>                    -</u>	<b><u>\$     327,941</u></b>
<b>Net assets restricted for scholarships</b>	<b><u>\$     20,172</u></b>	

The accompanying notes are an integral part of these basic financial statements.

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**PRIVATE PURPOSE TRUST FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

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<b>Additions</b>	
Contributions	\$ 1,750
Interest on deposits	<u>708</u>
<b>Total additions</b>	<u><b>2,458</b></u>
<b>Deductions</b>	
Scholarships	2,800
Other	<u>307</u>
<b>Total deductions</b>	<u><b>3,107</b></u>
Decrease in net assets	(649)
Net assets, beginning of year	<u>20,821</u>
<b>Net assets, end of year</b>	<u><u><b>\$ 20,172</b></u></u>

The accompanying notes are an integral part of these basic financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Sault Ste. Marie Area Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.



# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. However, agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement type grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The *General Fund* is the government's primary operating fund and its only major fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for the various food service and athletic programs sponsored by the District.

The *Debt Service Funds* account for the principal and interest payments and other expenditures on long-term debt.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

The *Private Purpose Trust Fund* accounts for the maintenance of scholarship funds for future beneficiaries.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the District-wide financial statements.

### **D. Assets, liabilities and equity**

#### ***1. Deposits and investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

#### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2008.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. *Inventory and prepaid items*

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held for sale or consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

Payments made to vendors for services that will benefit future periods are reported as prepaid items.

### 4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20-50
Buildings	30-50
Buildings improvements	5-20
Furniture and equipment	5-20
Buses	4-10
Vehicles	5-10
Software	2-5

### 5. *Compensated absences*

District policy permits certain employees to accumulate earned but unused sick and vacation pay benefits that are paid when the employee separates from service with the District. A liability is recorded in the government-wide financial statements for such amounts.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### **6. *Long-term obligations***

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **7. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General Fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budget for the General Fund is adopted on a functional basis.

### **B. Excess of expenditures over appropriations**

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

**Statement of Net Assets**

Cash and cash equivalents	\$ 737,984
Investments	<u>4,252,468</u>

**Total Statement of Net Assets** **4,990,452**

**Statement of Fiduciary Net Assets**

Cash and cash equivalents	333,113
Investments	<u>15,000</u>

**Total Statement of Fiduciary Net Assets** **348,113**

**Total deposits and investments** **\$ 5,338,565**

A reconciliation of cash and investments as shown in the financial statements to the District's deposits and investments is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 1,143,560
Investments	<u>4,195,005</u>

**Total deposits and investments** **\$ 5,338,565**

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments:

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits	n/a	\$ 1,143,560	n/a
Federal backed securities	n/a	731,974	n/a
Michigan Liquid Asset Fund	n/a	<u>3,463,031</u>	S&P – AAAm
<b>Total deposits and investments</b>		<b><u>\$ 5,338,565</u></b>	

Certificate of deposits of \$72,463 are considered bank deposits for risk purposes.

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,691,590 of the District's bank balance of \$1,949,585 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Credit risk ratings for the District's investments are indicated above.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### **B. Receivables**

Receivables in the governmental activities are mainly due from other governments.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

### C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2008:

	<b>Restated Balance July 1, 2007</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2008</b>
<b>Capital assets not being depreciated</b>				
<b>Land</b>	<b><u>\$ 70,722</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 70,722</u></b>
<b>Capital assets being depreciated</b>				
Land improvements	2,090,446	79,770	-	2,170,216
Buildings	19,814,295	-	-	19,814,295
Building improvements	574,880	47,584	-	622,464
Furniture and equipment	1,191,202	24,757	-	1,215,959
Buses	1,361,389	75,990	(301,819)	1,135,560
Vehicles	116,889	-	-	116,889
Software	<u>211,407</u>	<u>8,875</u>	<u>-</u>	<u>220,282</u>
<b>Total capital assets being depreciated</b>	<b><u>25,360,508</u></b>	<b><u>236,976</u></b>	<b><u>(301,819)</u></b>	<b><u>25,295,665</u></b>
<b>Accumulated depreciation</b>				
Land improvements	(623,521)	(105,913)	-	(729,434)
Buildings	(7,477,168)	(361,534)	-	(7,838,702)
Building improvements	(208,205)	(35,736)	-	(243,941)
Furniture and equipment	(604,875)	(72,515)	-	(677,390)
Buses	(1,141,572)	(67,544)	301,819	(907,297)
Vehicles	(104,856)	(1,761)	-	(106,617)
Software	<u>(209,775)</u>	<u>(1,928)</u>	<u>-</u>	<u>(211,703)</u>
<b>Total accumulated depreciation</b>	<b><u>(10,369,972)</u></b>	<b><u>(646,931)</u></b>	<b><u>301,819</u></b>	<b><u>(10,715,084)</u></b>
<b>Total capital assets being depreciated, net</b>	<b><u>14,990,536</u></b>	<b><u>(409,955)</u></b>	<b><u>-</u></b>	<b><u>14,580,581</u></b>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 15,061,258</u></b>	<b><u>\$ (409,955)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 14,651,303</u></b>

Unallocated depreciation expense of \$646,931 was charged to the governmental activities. The adjustment of \$38,534 to decrease the beginning balance of accumulated depreciation and increase the District's net assets reflects the correction of an error in the calculation of accumulated depreciation on certain assets in prior years.



# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### D. Accounts payable and accrued expenses

Payables are 37 percent due to other governments, 54 percent accrued salaries, and 9 percent accounts payable and accrued expenses.

### E. Interfund receivables, payables and transfers

The following balances represent individual fund interfund receivables and payables at June 30, 2008:

	<b><u>Interfund Receivables</u></b>	<b><u>Interfund Payables</u></b>
General Fund	\$ 40,607	\$ 8,969
Nonmajor Funds	<u>8,969</u>	<u>40,607</u>
<b>Total</b>	<b><u>\$ 49,576</u></b>	<b><u>\$ 49,576</u></b>

The District reports interfund balances between certain funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<b><u>Transfers out</u></b>
	<b><u>General Fund</u></b>
<b><u>Transfers in</u></b>	
Athletic Fund	\$ 239,351
Food Service Fund	7,910
QZAB Debt Service Fund	<u>121,963</u>
<b>Transfers out</b>	<b><u>\$ 369,224</u></b>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

### F. Long-Term Debt

Long-term debt of the District consists of the following:

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
<b>Bonds payable</b>					
2005 General Obligation Advance Refunding Bonds	\$ 7,780,000	\$ -	\$ -	\$ 7,780,000	\$ -
2002 QZAB	600,000	-	-	600,000	-
2001 QZAB	999,950	-	-	999,950	-
1999 School Building and Site Bonds	1,130,000	-	(550,000)	580,000	580,000
1998 Durant Bonds	<u>406,065</u>	<u>-</u>	<u>-</u>	<u>406,065</u>	<u>233,872</u>
<b>Total bonds payable</b>	<b>10,916,015</b>	<b>-</b>	<b>(550,000)</b>	<b>10,366,015</b>	<b>813,872</b>
<b>Other liabilities</b>					
Compensated absences	<u>178,853</u>	<u>5,788</u>	<u>(4,855)</u>	<u>179,786</u>	<u>8,106</u>
<b>Total long-term liabilities</b>	<b><u>\$ 11,094,868</u></b>	<b><u>\$ 5,788</u></b>	<b><u>\$ (554,855)</u></b>	<b><u>\$ 10,545,801</u></b>	<b><u>\$ 821,978</u></b>

Long-term debt at June 30, 2008 includes the following:

#### General Obligation Bonds

2005 General Obligation Advance Refunding Bonds; annual principal payments varying from \$620,000 - \$945,000 beginning May 2010, interest is charged semi-annually bearing interest of 4% to 5%; final payment due May 2019.

\$ 7,780,000

2002 School Improvement (General Obligation – Limited Tax) Qualified Zone Academy Bonds (QZAB). These bonds require a sinking fund to be established with \$38,963 annual transfers to an escrow agent annually on September 10<sup>th</sup>. These zero-coupon bonds are due in total on September 10, 2016.

600,000

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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2001 School Improvement (General Obligation – Limited Tax) Qualified Zone Academy Bonds (QZAB). These bonds require a sinking fund to be established with \$83,000 annual transfers to an escrow agent annually on June 1<sup>st</sup>. These zero-coupon bonds are due in total on June 1, 2013.

\$ 999,950

1999 School Building and Site Bonds; due through May 2009 in semiannual installments of interest and annual principal payments varying from \$550,000 - \$580,000; bearing interest rate of 5.125%.

580,000

### **Total general obligation bonds**

**9,959,950**

### **Durant Resolution Bond**

1998 series, school improvement bond due in annual installments ranging from \$40,093 to \$233,872 with interest charged at 4.76%. This bond is a self-liquidating bond. The principal and interest is payable solely through annual appropriations by the State of Michigan. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Final payment is due May 15, 2013.

406,065

### **Total bonds**

**10,366,015**

Compensated absences

179,786

### **Total long-term debt**

**\$ 10,545,801**

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service. During the year ended June 30, 2003, the State of Michigan postponed all Durant debt service requirements. No debt service was required for May 15, 2003 through 2005. The debt payments resumed in 2006, but were again deferred in 2007 and 2008.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

### Bond debt service requirements

The annual requirements to service the bonds (not including accrued compensated absences) to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 813,872	\$ 473,777	\$ 1,287,649
2010	660,093	361,649	1,021,742
2011	692,003	328,740	1,020,743
2012	729,001	294,240	1,023,241
2013	1,766,046	257,895	2,023,941
2014-2018	4,760,000	726,650	5,486,650
2019	<u>945,000</u>	<u>37,800</u>	<u>982,800</u>
<b>Total</b>	<b><u>\$ 10,366,015</u></b>	<b><u>\$ 2,480,751</u></b>	<b><u>\$ 12,846,766</u></b>

Interest expense and paying agent fees were \$415,929 for the year ended June 30, 2008.

During the year ended June 30, 2008, the District borrowed \$1,750,000 on a short term State Aid anticipation note.

The outstanding balance of \$1,805,456, which includes principal and accrued interest, is recorded as a liability in the General Fund. This note carries an interest rate of 3.68% and is due August 20, 2008.

Compensated absences are generally liquidated by the General Fund.

The District is required to deposit, yearly, payments with an escrow agent for the future payment of the 2001 and 2002 School Improvement Bonds. The future payments are as follows:

	<u>2001</u>	<u>2002</u>
2009	\$ 83,000	\$ 38,963
2010	83,000	38,963
2011	83,000	38,963
2012	83,000	38,963
2013	83,000	38,963
2014	-	38,963
2015	-	38,963
2016	-	38,963
2017	<u>-</u>	<u>38,963</u>
<b>Total</b>	<b><u>\$ 415,000</u></b>	<b><u>\$ 350,667</u></b>

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### IV. OTHER INFORMATION

#### A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 and December 1 of the following year. School related property taxes are levied on December 1 each year, based on the previous years assessment, by township and city governments whose boundaries include property within the District, and are due and payable on August 31 and February 28, respectively. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

#### C. Defined benefit pension plan

##### Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, PO Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72 % of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$2,067,501, \$2,297,512, and \$2,213,847, respectively, equal to the required contributions for each year.

### **Other Post-employment Benefits**

The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### **D. Commitments and contingencies**

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2008.

On March 27, 1998 and May 22, 2000, the District entered into Irrevocable Standby Letters of Credit in the amount of \$10,000 and \$50,000, respectively, which are to be held by a local financial institution until construction of the Wetland Mitigation Projects are completed and approved by the Michigan Department of Environmental Quality (MDEQ), at which time 50% shall be returned. The remaining 50% shall be returned at the end of a five year monitoring period when the MDEQ makes a formal determination that the wetland is functional. In July 2008, the Michigan Department of Environmental Quality (MDEQ) returned 100% and 50% of the Irrevocable Standby Letters of Credit entered into on March 27, 1998 and May 22, 2000 respectively.

### **E. Other matter**

In August 2008, the District borrowed \$1,900,000 on a state aid anticipation note with interest charged at 2.3% maturing August 2009.

\* \* \* \* \*

## **SUPPLEMENTARY INFORMATION**



# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

	Special Revenue		Debt Service		Total
	Athletics	Food Service	Other Debt Service	QZAB Debt Service	
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 319,446	\$ 286,921	\$ 72,648	\$ 679,015
Investments	-	-	-	716,974	716,974
Accounts receivable	-	-	406,065	-	406,065
Due from other funds	75	7,478	1,416	-	8,969
Inventory	-	17,335	-	-	17,335
<b>Total assets</b>	<b>\$ 75</b>	<b>\$ 344,259</b>	<b>\$ 694,402</b>	<b>\$ 789,622</b>	<b>\$ 1,828,358</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 18,758	\$ -	\$ -	\$ 18,758
Due to other funds	-	40,607	-	-	40,607
Unearned revenue	-	20,984	406,065	-	427,049
<b>Total liabilities</b>	<b>-</b>	<b>80,349</b>	<b>406,065</b>	<b>-</b>	<b>486,414</b>
<b>Fund balances</b>					
Reserved for inventory	-	17,335	-	-	17,335
Reserved for debt service	-	-	288,337	789,622	1,077,959
Unreserved, undesignated	75	246,575	-	-	246,650
<b>Total fund balances</b>	<b>75</b>	<b>263,910</b>	<b>288,337</b>	<b>789,622</b>	<b>1,341,944</b>
<b>Total liabilities and fund balances</b>	<b>\$ 75</b>	<b>\$ 344,259</b>	<b>\$ 694,402</b>	<b>\$ 789,622</b>	<b>\$ 1,828,358</b>

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue		Debt Service		Total
	Athletics	Food Service	Other Debt Service	QZAB Debt Service	
<b>Revenues</b>					
Local sources	\$ 134,062	\$ 486,745	\$ 922,138	\$ 37,329	\$ 1,580,274
State sources	-	51,312	-	-	51,312
Federal sources	-	464,205	-	-	464,205
<b>Total revenues</b>	<b>134,062</b>	<b>1,002,262</b>	<b>922,138</b>	<b>37,329</b>	<b>2,095,791</b>
<b>Expenditures</b>					
Food service activities	-	1,048,862	-	-	1,048,862
Athletic programs	449,206	-	-	-	449,206
Debt service					
Principal repayment	-	-	550,000	-	550,000
Interest	-	-	409,085	-	409,085
<b>Total expenditures</b>	<b>449,206</b>	<b>1,048,862</b>	<b>959,085</b>	<b>-</b>	<b>2,457,153</b>
Revenue (under) over expenditures	(315,144)	(46,600)	(36,947)	37,329	(361,362)
<b>Other financing sources (uses)</b>					
Transfers in	<b>239,351</b>	<b>7,910</b>	<b>-</b>	<b>121,963</b>	<b>369,224</b>
<b>Net change in fund balances</b>	<b>(75,793)</b>	<b>(38,690)</b>	<b>(36,947)</b>	<b>159,292</b>	<b>7,862</b>
Fund balances, beginning of year	75,868	302,600	325,284	630,330	1,334,082
<b>Fund balances, end of year</b>	<b>\$ 75</b>	<b>\$ 263,910</b>	<b>\$ 288,337</b>	<b>\$ 789,622</b>	<b>\$ 1,341,944</b>

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## STATEMENT OF CHANGES IN ASSETS AND LIABILITES - AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
<b>ASSETS</b>				
Cash and cash equivalents	<u>\$ 281,179</u>	<u>\$ 942,303</u>	<u>\$ 895,541</u>	<u>\$ 327,941</u>
<b>LIABILITIES</b>				
Due to clubs and organizations	<u>\$ 281,179</u>	<u>\$ 942,303</u>	<u>\$ 895,541</u>	<u>\$ 327,941</u>
The balances consist of the following				
<b>Deposits due to clubs and organizations</b>				
High School				
Administration				
Driver education	\$ 190	\$ 36,214	\$ 36,404	\$ -
Maintenance/vandalism	15	-	-	15
Health	68	500	703	(135)
Advanced placement	693	7,825	7,173	1,345
Technology fines	6,918	145	5,800	1,263
TMI	15	56	40	31
Book deposits	17,285	6,389	7,039	16,635
Sr. class booth tree	333	100	-	433
Chipley fund	236	1,572	1,548	260
Pop machine	1,421	8,465	8,778	1,108
Parking fees	3,115	1,210	-	4,325
General	782	7,674	7,821	635
Library fines	891	385	-	1,276
Special revolving	(292)	292	-	-
Staff remembrance	68	-	53	15
Fines/obligations	651	1,500	-	2,151
Woods supplies	1,300	1,713	2,146	867
Activity fee donations	16,318	200	1,664	14,854
Activity fee	-	68,419	68,237	182
Total administration	<u>50,007</u>	<u>142,659</u>	<u>147,406</u>	<u>45,260</u>

Continued...

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -**  
**AGENCY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Balance July 1, 2007</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balance June 30, 2008</b>
Athletics				
Boys basketball	\$ 288	\$ 4,563	\$ 3,251	\$ 1,600
Cheerleaders	1,284	-	-	1,284
Cross country	6,758	11,172	9,188	8,742
Boys & girls basketball	-	6,325	6,325	-
Elementary basketball	4,845	966	249	5,562
MS volleyball	214	185	92	307
MS girls basketball	897	-	-	897
MS boys basketball	(112)	-	-	(112)
Football	3,216	3,385	176	6,425
Gate receipts & pass	-	62,239	60,620	1,619
Boys track	189	615	662	142
Girls track	(193)	150	-	(43)
Girls basketball	(333)	7,801	5,625	1,843
Varsity softball	3,810	1,601	3,037	2,374
Baseball	(244)	182	-	(62)
Hockey team	3,481	4,063	2,166	5,378
Science supplies	36	-	36	-
Boys soccer team	3,343	245	2,074	1,514
Girls soccer	6,844	298	3,607	3,535
JV soccer	137	-	-	137
Swim team	4,514	2,046	9	6,551
Boys golf	1,517	1,200	625	2,092
Girls golf	3,683	1,177	1,310	3,550
Volleyball team	3,402	2,761	1,663	4,500
Wrestling	2,379	6,794	2,468	6,705
Richard Benoit Memorial	3,301	-	312	2,989
Total athletics	53,256	117,768	103,495	67,529

Continued...

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 3008

	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
Classes and clubs				
Art department	\$ 305	\$ 718	\$ -	\$ 1,023
Art club	1,365	2,036	1,054	2,347
Metal sculpture	389	-	-	389
Band	570	775	141	1,204
Choir	288	13,811	14,100	(1)
Class of 2007	1,439	-	1,439	-
Class of 2008	3,820	1,501	3,994	1,327
Class of 2009	761	8,748	6,261	3,248
Class of 2010	630	298	342	586
Class of 2011	-	1,097	-	1,097
Homecoming	-	1,538	1,538	-
Drama club	7,690	2,824	897	9,617
Student publications	490	-	-	490
Science club	269	266	-	535
Science supplies	-	5	-	5
Key club	496	724	1,173	47
Northern light	2,011	33,610	34,011	1,610
Poms Poms	(1,665)	1,738	1,401	(1,328)
Quiz bowl	2	-	-	2
SADD	198	274	321	151
Student council	2,786	1,797	2,091	2,492
PE Activities	134	2,665	2,795	4
WOW	(379)	1,129	344	406
Total classes and clubs	21,599	75,554	71,902	25,251
Vocational youth organizations				
MOUS	2,381	3,000	2,649	2,732
IC3	190	-	-	190
Career forward	-	3,000	3,000	-
BPA	810	30,833	29,548	2,095
Health occupation	3,450	3,441	3,505	3,386
VICA auto mechanics	317	4,113	4,430	-
VICA drafting	187	2,123	1,639	671
VICA machine shop	8	1,446	15	1,439
VICA welding	440	1,718	1,320	838
VSO	5,283	15,073	12,313	8,043
Construction	3,716	6,020	1,284	8,452
Total vocational youth organizations	16,782	70,767	59,703	27,846
Other high school				
Athletic development	8,574	38,546	33,742	13,378
First robotics	4,086	24,217	27,776	527
Scat club	13	-	13	-
Total other high school	12,673	62,763	61,531	13,905
Total high school	154,317	469,511	444,037	179,791

Continued...

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -**  
**AGENCY FUND**  
**FOR THE YEAR ENDED JUNE 30, 3008**

	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
Middle school				
Art Supplies	\$ 45	\$ -	\$ -	\$ 45
General athletics	8,615	340	340	8,615
Band	22	-	-	22
Book deposits	11,190	1,314	3,575	8,929
Book fines	71	130	-	201
7/8 basketball boys	-	1,052	333	719
7/8 basketball girls	-	1,833	169	1,664
Cafeteria	-	122,525	122,525	-
Cheerleading	178	154	-	332
Computers	132	477	134	475
Concession	3,535	1,642	639	4,538
Digging diversity	-	302	302	-
Drafting/Zielke	406	-	-	406
Elementary cheerleading	153	-	153	-
Faculty/flower	578	415	483	510
Fun funds	1,211	277	485	1,003
Multi media	59	114	43	130
General fund	201	-	74	127
Home Econ Lab	280	818	842	256
Iowa testing incentive	3,439	500	140	3,799
Japan - student	-	45,326	38,974	6,352
Library	1,920	5,826	5,329	2,417
Math - K. Zielke	779	654	864	569
Office - principal	3,310	3,086	3,024	3,372
Performing arts	1,737	2,680	3,270	1,147
Pop machine - lobby	23,018	558	107	23,469
Pride and culture grant	81	12	2	91
Science - Gorsuch	150	-	-	150
Science - Dougherty	148	-	148	-
6th grade activity	639	-	94	545
Social committee	267	106	246	127
Social studies	22	-	-	22
Student council	11,808	20,797	22,406	10,199
Student needs	404	323	404	323
Student planner book	2,424	404	1,500	1,328
Tobacco grant	529	1,000	88	1,441
Track team	560	-	-	560
Washington DC	99	947	984	62
Woodshop - Prac. Arts	886	268	865	289
Woods	427	1,685	1,659	453
WOW	86	100	52	134
Yearbook	3,763	9,105	8,891	3,977
Total middle school	83,172	224,770	219,144	88,798

Continued...

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -**  
**AGENCY FUND**  
**FOR THE YEAR ENDED JUNE 30, 3008**

	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
Lincoln School				
Lincoln PTO	\$ -	\$ 25,514	\$ 23,392	\$ 2,122
Book fair	1,616	3,242	3,782	1,076
Book fines	690	-	2	688
Book orders	-	951	951	-
Dress down	294	141	42	393
Fundraiser, Inc.	2,654	10,775	8,170	5,259
General fund	7,386	14,342	18,550	3,178
Kymes	61	-	61	-
Laminating	187	81	52	216
Lunch	69	25,866	25,935	-
Office	203	157	-	360
Pop	1,025	600	599	1,026
Rogers/Bump	64	2,410	2,080	394
Rogers	-	1	-	1
Store	509	750	859	400
	<u>14,758</u>	<u>84,830</u>	<u>84,475</u>	<u>15,113</u>
Total Lincoln School				
Soo Township School				
Soo Township PTO	-	31,664	26,777	4,887
Lunch	-	36,556	36,556	-
Library	961	6,378	6,022	1,317
General fund	7,205	4,720	7,651	4,274
Community fund for students	247	500	273	474
Environmental education	500	-	-	500
Teacher room 1 and 2	676	205	385	496
Teacher room 5	28	50	50	28
Teacher room 6	-	741	165	576
Teacher room 7	228	-	228	-
Teacher room 8	15	166	116	65
Teacher room 9	249	135	384	-
Teacher room 10	4	164	168	-
Teacher room 11	143	260	293	110
Teacher room 12	76	-	76	-
Teacher room 13	39	648	165	522
Teacher room 14	43	-	14	29
Teacher room 16	-	949	883	66
Teacher room 17	464	301	655	110
Teacher room 18	-	70	-	70
	<u>10,878</u>	<u>83,507</u>	<u>80,861</u>	<u>13,524</u>
Total Soo Township School				

Continued...

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -**  
**AGENCY FUND**  
**FOR THE YEAR ENDED JUNE 30, 3008**

	<b>Balance July 1, 2007</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balance June 30, 2008</b>
Washington School				
Washington PTO	\$ -	\$ 32,346	\$ 17,092	\$ 15,254
Box top	164	-	-	164
Dress down	174	-	35	139
General fund	3,423	6,331	8,504	1,250
Library/book fair	1,959	4,422	4,918	1,463
Lunch	123	26,719	26,842	-
Pop	2,951	1,907	1,448	3,410
Popcorn	2,348	1,384	635	3,097
Store	2,225	2,056	1,502	2,779
Sunshine	(27)	236	203	6
PTO	14	-	14	-
Total Washington School	<u>13,354</u>	<u>75,401</u>	<u>61,193</u>	<u>27,562</u>
Alternative Education				
Lunch	180	2,409	2,588	1
Store	<u>4,520</u>	<u>1,875</u>	<u>3,243</u>	<u>3,152</u>
Total Alternative Education	<u>4,700</u>	<u>4,284</u>	<u>5,831</u>	<u>3,153</u>
<b>Total liabilities</b>	<b><u>\$ 281,179</u></b>	<b><u>\$ 942,303</u></b>	<b><u>\$ 895,541</u></b>	<b><u>\$ 327,941</u></b>

Concluded





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 7, 2008

Board of Education  
Sault Ste. Marie Area Public Schools  
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of ***Sault Ste. Marie Area Public Schools*** (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the District in a separate letter dated October 7, 2008.

This report is intended solely for the information and use of the finance committee, management, others within the organization, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **SINGLE AUDIT**

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Project Number	Approved Award/Grant Amount
<b>U.S. Department of Agriculture</b>			
<b>Passed through State of Michigan Department of Education</b>			
<b>Commodities</b>			
Entitlement Commodities	10.550	-	\$ 49,583
Bonus Commodities	10.550	-	-
<b>Total Commodities</b>			<b>49,583</b>
<b>National School Lunch Programs</b>			
National School Lunch - Breakfast	10.553	1970	82,941
National School Lunch Program - All Lunches	10.555	1950	57,073
National School Lunch Program - Free and Reduced	10.555	1960	284,705
<b>Total National School Lunch Programs</b>			<b>424,719</b>
<b>Total - U.S. Department of Agriculture</b>			<b>474,302</b>
<b>U.S. Department of Labor</b>			
<b>Passed through Eastern Upper Peninsula Employment Training Consortium</b>			
WIA - Dislocated Worker	17.260		4,875
WIA - Adult	17.258		7,800
<b>Total - U.S. Department of Labor</b>			<b>12,675</b>
<b>U.S. Department of Education</b>			
<b>Direct Awards</b>			
Indian Education - LEA 06-07Regular	84.060A	S060A060124	231,675
Indian Education - LEA 05-06Regular	84.060A	B060A050124	215,544
Impact Aid	84.041	S041B-2008-5977	255,462
Impact Aid	84.041	S041B-2007-5977	211,393
Impact Aid	84.041	S041B-2005-5977	644,755
<b>Total Direct Awards</b>			<b>1,558,829</b>
<b>Passed through State of Michigan Department of Education</b>			
<b>Title I</b>			
Title I, Part A - 2007 Regular	84.010	071530 0607	523,206
Title I, Part A - 2008 Regular	84.010	081530 0708	482,785
Title I, Part A - 2008 2% School Impromement	84.010	081550 0708	30,000
<b>Total Title I</b>			<b>1,035,991</b>
<b>Title V</b>			
Title V, Part A - LEA Allocation	84.298	070250 0607	587
Title V, Part A - LEA Allocation	84.298	080250 0708	559
<b>Total Title V</b>			<b>1,146</b>

<u>Accrued (Deferred) Revenue June 30, 2007</u>	<u>Prior Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Current Year Revenue Recognized</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
\$ (2,900)	\$ 20,778	\$ 49,583	\$ 39,486	\$ 39,486	\$ (12,997)
-	122	-	-	-	-
<b>(2,900)</b>	<b>20,900</b>	<b>49,583</b>	<b>39,486</b>	<b>39,486</b>	<b>(12,997)</b>
-	84,651	82,941	82,941	82,941	-
-	57,391	57,073	57,073	57,073	-
-	268,026	284,705	284,705	284,705	-
-	<b>410,068</b>	<b>424,719</b>	<b>424,719</b>	<b>424,719</b>	-
<b>(2,900)</b>	<b>430,968</b>	<b>474,302</b>	<b>464,205</b>	<b>464,205</b>	<b>(12,997)</b>
-	1,950	4,875	4,875	4,875	-
-	27,815	7,800	7,800	7,800	-
-	<b>29,765</b>	<b>12,675</b>	<b>12,675</b>	<b>12,675</b>	-
110,767	214,234	128,208	17,441	17,441	-
-	-	215,544	215,544	215,544	-
-	-	255,462	255,462	255,462	-
-	193,372	17,822	17,822	17,822	-
-	-	79,067	79,067	79,067	-
<b>110,767</b>	<b>407,606</b>	<b>696,103</b>	<b>585,336</b>	<b>585,336</b>	-
233,463	517,963	233,463	-	-	-
-	(333)	385,364	476,747	476,747	91,383
-	-	-	25,829	25,829	25,829
<b>233,463</b>	<b>517,630</b>	<b>618,827</b>	<b>502,576</b>	<b>502,576</b>	<b>117,212</b>
587	587	587	-	-	-
-	-	45	559	559	514
<b>587</b>	<b>587</b>	<b>632</b>	<b>559</b>	<b>559</b>	<b>514</b>

Continued...

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Project Number	Approved Award/Grant Amount
<b>Title II</b>			
Title II, Part D - Enhancing Education Through Technology	84.318	074290 0607	\$ 5,371
Title II, Part D - Enhancing Education Through Technology	84.318	094290 0708	4,450
Title II, Part A - Improving Teacher Quality	84.367	070520 0607	204,644
Title II, Part A - Improving Teacher Quality	84.367	080520 0708	204,156
<b>Total Title II</b>			<b>418,621</b>
<b>Total Passed Through Michigan Department of Education</b>			<b>1,455,758</b>
<b>Passed through Eastern Upper Peninsula Intermediate School District</b>			
<b>Handicapped Persons Title VI</b>			
Handicapped Persons Title VI - B: Flowtrough	84.027	070450-0607	370,272
Handicapped Persons Title VI - B: Flowtrough	84.027	080450 0708	370,057
<b>Total Handicapped Persons Title VI</b>			<b>740,329</b>
<b>Carl Perkins VEA</b>			
Regional Allocation	84.048a	073540-7012-3	94,636
Regional Allocation	84.048a	085320-8012-3	93,623
<b>Total Carl Perkins VEA</b>			<b>188,259</b>
<b>IDEA</b>			
<b>IDEA - Special Education - Preschool Incentive</b>	<b>84.173A</b>	<b>080460-0708</b>	<b>41,835</b>
<b>Carl Perkins Tech Prep</b>			
Carl Perkins Tech Prep	84.243A	073540-7014-3	25,587
Carl Perkins Tech Prep	84.243A	083540-8014-3	28,265
<b>Total Carl Perkins Tech Prep</b>			<b>53,852</b>
<b>Medical Assistance Program TIT: Transportation</b>	93.778		<b>7,797</b>
<b>Total Passed through Eastern Upper Peninsula Intermediate School District</b>			<b>1,032,072</b>
<b>Total U.S. Department of Education</b>			<b>4,046,659</b>
<b>Total Federal Financial Awards</b>			<b>\$ 4,533,636</b>

**Notes to Schedule of Expenditures of Federal Awards**

1) Basis of Presentation-

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sault Ste. Marie Area Public Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

2) Management has utilized the Grants Section Auditors Report (Form R7120) and CMS Grant Auditors Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

<b>Accrued (Deferred) Revenue June 30, 2007</b>	<b>Prior Year Expenditures</b>	<b>Current Year Receipts</b>	<b>Current Year Expenditures</b>	<b>Current Year Revenue Recognized</b>	<b>Accrued (Deferred) Revenue June 30, 2008</b>
\$ 5,371	\$ 5,371	\$ 5,371	\$ -	\$ -	\$ -
-	-	4,450	4,450	4,450	-
105,394	204,644	105,394	-	-	-
-	-	175,464	194,687	194,687	19,223
<b>110,765</b>	<b>210,015</b>	<b>290,679</b>	<b>199,137</b>	<b>199,137</b>	<b>19,223</b>
<b>344,815</b>	<b>728,232</b>	<b>910,138</b>	<b>702,272</b>	<b>702,272</b>	<b>136,949</b>
123,308	370,272	123,308	-	-	-
-	-	270,238	370,057	370,057	99,819
<b>123,308</b>	<b>370,272</b>	<b>393,546</b>	<b>370,057</b>	<b>370,057</b>	<b>99,819</b>
29,872	94,636	29,872	-	-	-
-	-	57,659	93,623	93,623	35,964
<b>29,872</b>	<b>94,636</b>	<b>87,531</b>	<b>93,623</b>	<b>93,623</b>	<b>35,964</b>
-	<b>55,337</b>	<b>41,835</b>	<b>41,835</b>	<b>41,835</b>	-
8,969	25,587	8,969	-	-	-
-	-	12,971	28,265	28,265	15,294
<b>8,969</b>	<b>25,587</b>	<b>21,940</b>	<b>28,265</b>	<b>28,265</b>	<b>15,294</b>
-	<b>8,499</b>	<b>7,797</b>	<b>7,797</b>	<b>7,797</b>	-
<b>162,149</b>	<b>554,331</b>	<b>552,649</b>	<b>541,577</b>	<b>541,577</b>	<b>151,077</b>
<b>617,731</b>	<b>1,690,169</b>	<b>2,158,890</b>	<b>1,829,185</b>	<b>1,829,185</b>	<b>288,026</b>
<b>\$ 614,831</b>	<b>\$ 2,150,902</b>	<b>\$ 2,645,867</b>	<b>\$ 2,306,065</b>	<b>\$ 2,306,065</b>	<b>\$ 275,029</b>

Concluded



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

October 7, 2008

Board of Education  
Sault Ste. Marie Area Public Schools  
Sault Ste. Marie, Michigan

**Compliance**

We have audited the compliance of *Sault Ste. Marie Area Public Schools* (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed certain instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 2008-1.



## **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

***Financial Statements***

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to basic financial statements noted?	No

***Federal Awards***

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies(s) identified not considered to be material weaknesses?	Yes
Type of auditors’ report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	Yes

Identification of major programs:

<u><b>CFDA Number(s)</b></u>	<u><b>Name of Program</b></u>
84.010	Title I, Part A
10.555	USDA National School Lunch Program
10.553	USDA National School Breakfast Program
84.041	Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Continued...

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

No financial statement findings.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING 08-01                      Time records**

**Type of Finding:**                      Compliance and internal control over compliance

**Applicable to:**                      CFDA #84.010, Department of Education – Title I, Part A

**Questioned Costs:**                      None

**Criteria:** Co-funded employees are required to document their time spent working on Title I as defined in OMB Circular A-87, Attachment B, Item 8h.

**Deficiency:** The co-funded employees did not have after-the-fact documentation of their time spent working on Title I projects.

**Context:** The five co-funded employees had written schedules, however, they did not properly complete personnel activity reports (PARS) or after-the-fact time sheets confirming that the schedules were followed.

**Effect:** There was no documentation to support that the schedules prepared were followed as defined by OMB Circular A-87, Attachment B, Item 8h. The District does not have an internal control procedure that ensures co-funded employees complete an after-the-fact documentation of their time.

**Recommendation:** We recommend that all co-funded employees be required to complete PARS or after-the-fact time sheets on at least a monthly basis to support their time spent working on Title I.

**Management's Response:** The District's management will require that co-funded employees complete after-the-fact documentation to support time dedicated to Title I, Part A programs which will be reviewed and approved by management.

**SAULT STE. MARIE AREA PUBLIC SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**SECTION IV – RESPONSE TO PRIOR YEAR FINDINGS**

**FINDING 07-01**

Finding was not resolved; see finding 08-01 above.

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## **ADDITIONAL INFORMATION (UNAUDITED)**

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## ADDITIONAL INFORMATION (UNAUDITED)

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### DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2008, the District has the following debt issues that apply to SEC Rule 15c2-12.

- \$12,175,000 Sault Ste Marie Area Public Schools, County of Chippewa, State of Michigan, 1999 School Building and Site Bonds.
- \$7,780,000 Sault Ste. Marie Area Public Schools, County of Chippewa, State of Michigan, 2005 Refunding Bonds.

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12

#### A. SCHOOL DISTRICT TAX RATES

<u>Year</u>	<u>Voted Operating*</u>	<u>Debt</u>	<u>Total</u>
2007-08	17.9604	1.9000	19.8604
2006-07	17.9604	2.1100	20.0704
2005-06	17.9604	2.4600	20.4204
2004-05	17.9604	2.5000	20.4604
2003-04	17.9604	2.6200	20.5804
2002-03	18.0000	2.7500	20.7500
2001-02	18.0000	2.7500	20.7500
2000-01	18.0000	2.7500	20.7500

\* Levied on non-homestead property only  
Adjusted for Headlee Millage Reduction  
Source: Chippewa County Equalization Department and School District

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## ADDITIONAL INFORMATION (UNAUDITED)

### B. STATE AID PAYMENTS

<b>Fiscal Year Ended 6/30</b>	<b>State Aid Received</b>	<b>Amount Received Per Pupil</b>	<b>Foundation Allowance Per Pupil</b>
2008	\$ 15,720,772	\$ 6,170	\$ 7,204
2007	15,719,923	5,929	7,085
2006	16,301,566	5,985	6,875
2005	16,307,662	5,770	6,700
2004	17,546,563	6,015	6,700
2003	17,830,335	5,853	6,700
2002	18,518,871	5,969	6,300
2001	17,348,904	5,548	6,000
2000	16,014,992	5,062	5,700

Source: School District and Michigan Department of Education

### C. LABOR FORCE

<b>Contract Grouping</b>	<b>Employees</b>						<b>5 Year %Change</b>	<b>Union Affiliation</b>	<b>Contract Expiration Date</b>
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>			
Administrators	16	15	14	14	14	13	(19)%	Non-affiliated	6/30/2008
Support Group	16	15	13	13	13	13	(19)%	Non-affiliated	6/30/2007
Teachers	195	191	178	174	165	156	(20)%	SEA/MEA	8/31/2007
Secretaries	22	21	19	18	18	17	(23)%	USWA	6/30/2008
Paraprofessionals	49	41	43	43	42	44	(10)%	USWA	6/30/2008
Maintenance/ Custodial	25	23	23	21	21	21	(16)%	USWA	6/30/2008
Transportation	16	16	16	16	16	16	0%	USWA	6/30/2008
Food Service	<u>29</u>	<u>26</u>	<u>24</u>	<u>21</u>	<u>21</u>	<u>20</u>	<u>(31)%</u>	USWA	6/30/2008
<b>Total Contract Grouping</b>	<b><u>368</u></b>	<b><u>348</u></b>	<b><u>330</u></b>	<b><u>320</u></b>	<b><u>310</u></b>	<b><u>300</u></b>	<b><u>(18)%</u></b>		

SEA – Sault Education Association

MEA – Michigan Education Association

USWA – United Steel Workers of America

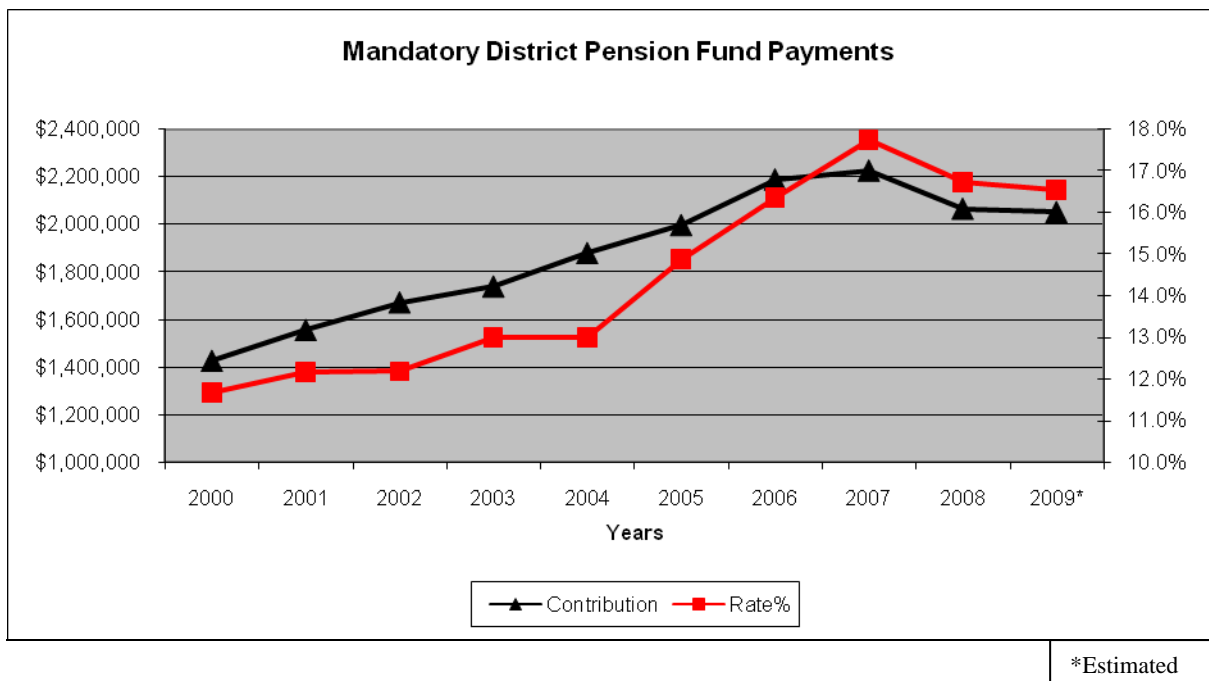
Source: School District

# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## ADDITIONAL INFORMATION (UNAUDITED)

### D. PENSION FUND (MPSERS)

<u>Fiscal Year Ended</u>	<u>Rate</u>	<u>Contribution</u>
2000	11.66%	\$ 1,425,857
2001	12.16%	1,556,173
2002	12.17%	1,672,558
2003	12.99%	1,739,441
2004	12.99%	1,880,440
2005	14.87%	2,044,719
2006	16.34%	2,213,847
2007	17.74%	2,297,512
2008	16.72%	2,067,501
2009*	16.54%	2,053,500





# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## ADDITIONAL INFORMATION (UNAUDITED)

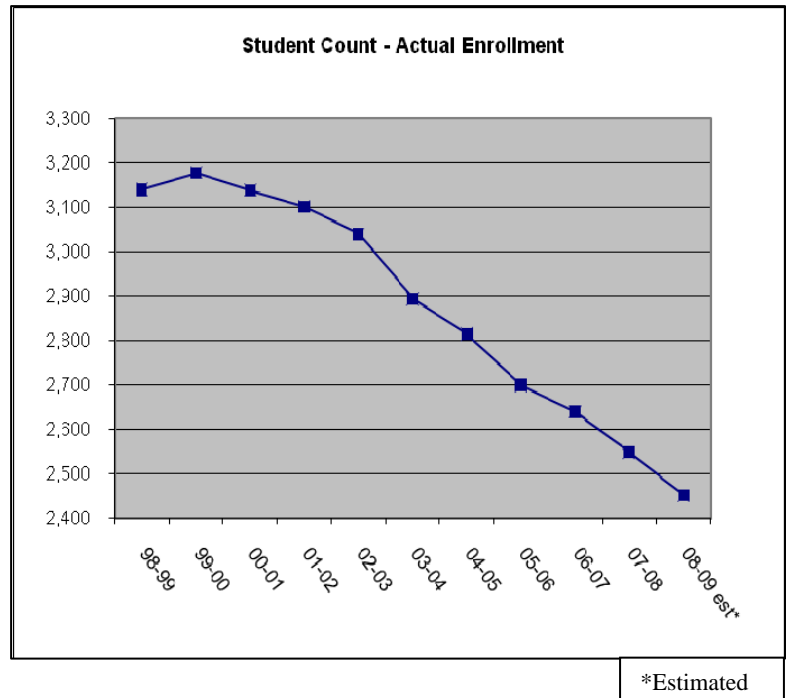
### E. DEBT STATEMENT – DIRECT DEBT

<u>Bonds Dated</u>	<u>Description</u>	<u>Proceeds</u>
8/1/99	Building and Site, UTQ	\$ 1,130,000
6/1/01	Building and Site, QZAB, LT	999,950
6/1/02	Building and Site, QZAB, LT	600,000
3/1/05	Refunding Bond, UTQ	<u>7,780,000</u>
		<b><u>\$ 10,509,950</u></b>

UTQ – Unlimited Tax Qualified  
 QZAB – Qualified Zone Academy Bonds  
 LT – Limited Tax

### F. SCHOOL ENROLLMENT HISTORY

<u>School Year</u>	<u>Enrollment</u>
2008/09*	2,451
2007/08	2,548
2006/07	2,639
2005/06	2,699
2004/05	2,814
2003/04	2,893
2002/03	3,039
2001/02	3,101
2000/01	3,138
1999/00	3,177
1998/99	3,139



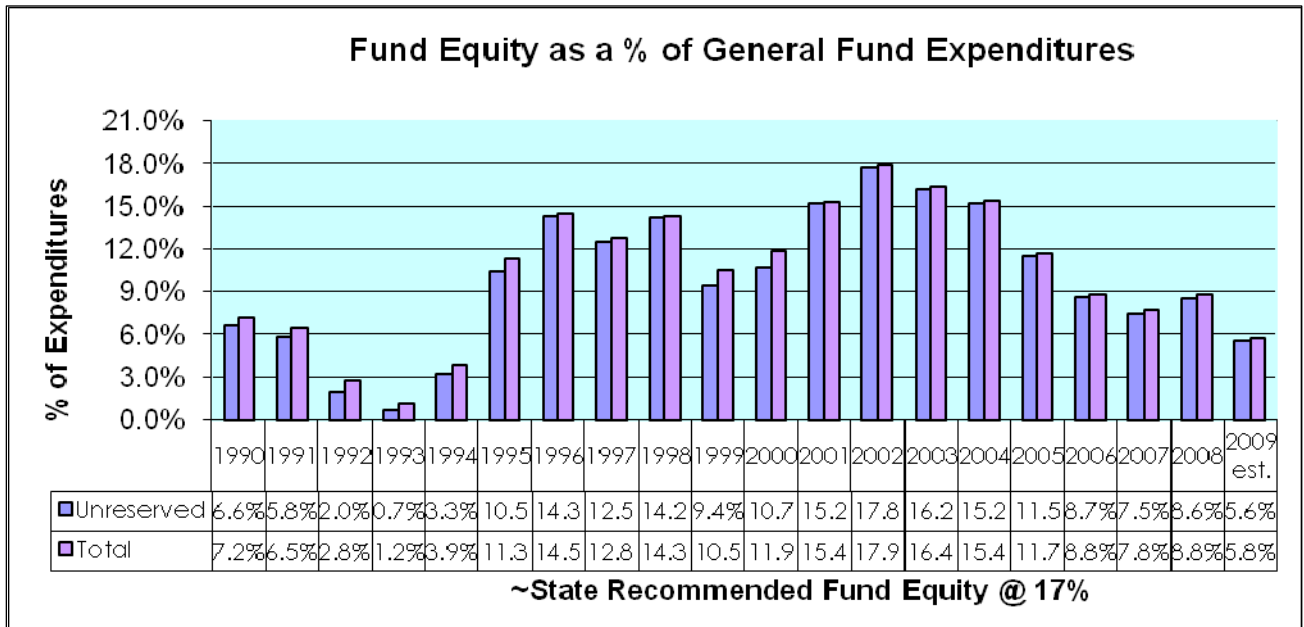
# SAULT STE. MARIE AREA PUBLIC SCHOOLS

## ADDITIONAL INFORMATION (UNAUDITED)

### G. 2007-2008 GENERAL FUND SUMMARY

2007/08 Revenues	\$ 22,643,126
2007/08 Expenditures	<u>(22,408,289)</u>
Excess Revenues Over Expenditures	234,837
July 1, 2007 Fund Balance	<u>1,746,338</u>
<b>June 30, 2008 Fund Balance</b>	<b><u>\$ 1,981,175</u></b>

### H. UNRESERVED FUND EQUITY





# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 7, 2008

Board of Education  
Sault Ste. Marie Area Public Schools  
Sault Ste. Marie, MI

In planning and performing our audit of the governmental activities, the major fund, and the aggregate remaining fund information of **Sault Ste. Marie Area Public Schools** (the "District") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses, as defined above.

# **SAULT STE. MARIE AREA PUBLIC SCHOOLS**

## **COMMENTS AND RECOMMENDATIONS**

**JUNE 30, 2008**

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### **DUAL SIGNATURE ON LARGE CHECKS**

We noted during our audit procedures that a signature plate is being used to sign all checks, which could result in unauthorized payments being made from District funds. To prevent potential unauthorized payments and tighten internal controls over cash disbursements, we recommend that the District adopt a formal policy that requires dual signature, of which one signature must be manual, on all checks over a Board determined amount.

### **BOARD APPROVAL OF ALL DISBURSEMENTS PRIOR TO PAYMENT**

In order for the District to be in compliance with State of Michigan regulations as identified in MCL 87.7, 88.20, 46.71, 71.75, and 65.7, the Board of Education must approve all disbursements prior to payment unless addressed otherwise in the District's policies and procedures. Since such a procedure is currently not in place, this matter is required to be reported to the State in the Michigan Auditing Procedures Report. To be in compliance with the State's regulations, we recommend that a formal policy be adopted to describe the types of recurring payments that may be released prior to Board approval. Recurring items may include payments to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). The policy must be very limited and a list of checks released prior to approval must be presented to the Board for subsequent approval. Any invoices not meeting the description of a recurring payment would be held for payment until the monthly Board meeting at which time those invoices would be reviewed and approved by the Board for payment. In order to maintain a good relationship with the District's vendors, a copy of the disbursement policy should be provided to all non-recurring vendors so they know when payment of an outstanding balance can be expected.

### **LOCK WORKSTATIONS WHEN UNATTENDED**

During the current year, through an internal control questionnaire completed by District personnel, we noted that the District's computer workstations do not automatically lock when unattended for a designated amount of time. Therefore it is possible for another employee to process transactions under a different username. To prevent unauthorized use of employee workstations, we recommend that all District computers be set to automatically lock after 10 minutes of inactivity.

### **ETHICAL BEHAVIOR EXPECTATIONS**

Through the issuance of routine fraud risk questionnaires, it was noted by several employees that they are not given clear instructions about how they are expected to carry out their responsibilities in an ethical manner. In order to discourage unethical behavior, we recommend that the District annually remind employees of their responsibility to conduct themselves in an ethical manner.

# **SAULT STE. MARIE AREA PUBLIC SCHOOLS**

## **COMMENTS AND RECOMMENDATIONS**

**JUNE 30, 2008**

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### **PRIOR YEAR COMMENTS AND RECOMMENDATIONS THAT HAVE BEEN ADDRESSED DURING THE CURRENT YEAR**

#### **CASH MANAGEMENT**

In the prior year it was noted through confirmation of bank accounts that several Sault Ste. Marie Area Public School's Parent Teacher Organization (PTO) accounts were opened under the District's tax identification number (TIN). Since these are separate organizations outside the internal control structure or financial reporting requirements of the District, they should have their own tax identification number. We noted in the current year that Debra Barry, Lead Accountant, mailed a letter to each PTO found to be utilizing the District's tax identification number notifying them that they could no longer use the District's TIN unless they became an agency fund of the District and report all activity to the Business Office monthly. To date, one PTO has received their own tax identification number and updated their bank account records accordingly; the others are now reported as agency funds of the District.

#### **CASH DISBURSEMENTS**

During fiscal year ended June 30, 2007, there were charges on the District's credit card and purchasing cards, as well as other disbursement checks, such as travel reimbursements, that were approved by the same individual that initiated the charge. Management responded to this comment by assigning Judy Aikens in Accounts Payable to approve all credit card and purchasing card invoices presented for payment after verifying that proper documentation is attached. Any purchases made by Judy and subsequently submitted for reimbursement are reviewed and approved by the Lead Accountant.

#### **DISTRICTS CREDIT CARD AND PURCHASING CARDS**

In the prior year, we noted that approximately fifty employees of the District have a purchase card. It was recommended that the list of employees and their positions with the District for those who hold a purchase card be provided annually to the Board to approve. During the current year, we noted that this was designated as an annual Board action.

#### **GASB 34 FUND**

Governmental Accounting Standards Board (GASB) Statement No. 34 required governmental entities, such as schools, to present certain information in District-wide financial statements. The District successfully implemented GASB 34 for its year ending June 30, 2003; however a separate fund to account for this activity was never established in the District's general ledger. Prior to providing us with a reasonably adjusted trial balance for the year ended June 30, 2008, Debra Barry, Lead Accountant, established a GASB 34 fund in the District's general ledger.

# **SAULT STE. MARIE AREA PUBLIC SCHOOLS**

## **COMMENTS AND RECOMMENDATIONS**

**JUNE 30, 2008**

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### **FIDUCIARY FUNDS**

In the prior year, we noted that the District uses the General Fund general ledger account, Due to Other Organizations, to account for the balance and transactions in three fundraising groups. The groups are Science Park, SCAT and Soccer. The District is acting in a fiduciary capacity by processing checks, with District signatures and accepting deposits; accordingly, this activity should be recorded in a fiduciary fund. During the current year, we noted that no action has been taken on this matter. Because the District is acting in a fiduciary capacity for these groups, we continue to recommend that the cash should be moved to the Fiduciary Fund and the activity should be processed in this fund.

### **FOOD SERVICE DEPOSITS**

During fiscal 2007, we noted that the District collects money for food services at each building. For the buildings that deposit the funds into their agency bank account, a split deposit should be recorded so that the portion of the deposit pertaining to the various activities such as food service can be easily identified. In addition, these deposits should be made as soon as reasonably possible, but not longer than two business days of collecting the funds. This will allow for better cash management of decentralized operations and an enhanced system of accounting for money in funds that also receive grant proceeds. We noted during the current year that split deposits are being recorded when necessary however these deposits are not always being deposited within two business days. We continue to recommend that deposits be made within two business days of collecting the funds.

### **CONCLUSION**

It has been a pleasure to provide audit services to the *Sault Ste. Marie Area Public Schools*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested. Thank you for providing all requested information.

We appreciate your business! Thank you.